

FDIC State Profile

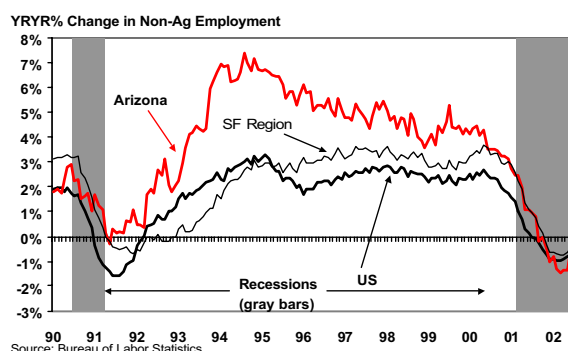
WINTER 2002

Arizona

Arizona's nonfarm employment declined during the year ending August 2002, a major change from its position as second fastest growing state in the nation during the 1990s.

- Payroll jobs fell by 0.9 percent in line with the percentage drop for the nation (see chart). All major sectors experienced declines except retail trade and government (federal, state, and local).
- Particularly hard hit were manufacturing (-7.0 percent); transportation and public utilities (-6.3 percent); and construction (-3.8 percent).
- Even the services sector, usually a growing job category in most states, fell slightly. The lodging subsector was especially negative, where employment declined 8.9 percent during the year ending in August, compared with a 4.1 percent decline for the nation as a whole. Economy.com identifies **Phoenix** and **Flagstaff** as metropolitan areas where the tourism sector is particularly important.

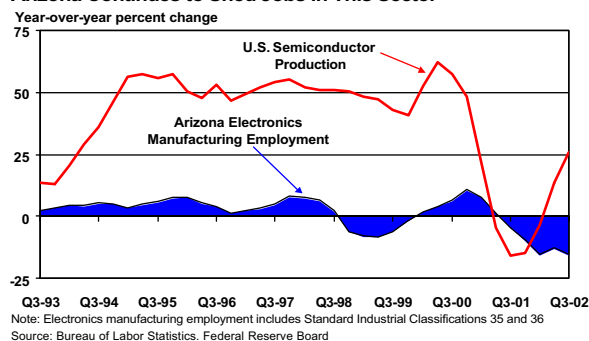
Arizona's Employment Fell Somewhat More Than the Nation's and Region's Employment in 2002



Arizona's high-tech sector has lost a significant percentage of jobs during the severe industry downturn the past two years.

- The state's electronics manufacturing sector employment declined by 12.3 percent during the past year (see chart). This drop was despite a pick up in the nation's rate of semiconductor output during the year according to U.S. industrial production data.
- Tucson's high-tech manufacturing is more dependent on defense-related products than is Phoenix's. The recent increase in national military spending, however, has not yet had an impact on manufacturing jobs in this metropolitan area.

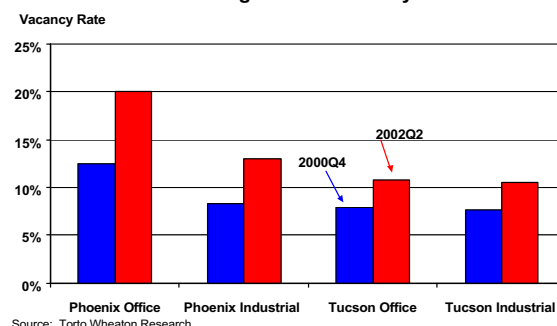
Semiconductor Production Has Improved in the Nation, But Arizona Continues to Shed Jobs in This Sector



The Phoenix office and industrial vacancy rates have risen as local economic conditions have weakened, while Tucson commercial real estate (CRE) has been less affected (see chart).

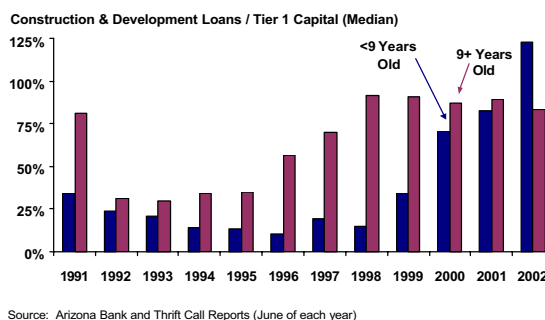
- According to **Property and Portfolio Research, LLC (PPR)**, vacancy rates across Phoenix's major commercial real estate (CRE) property types continued to deteriorate through mid-2002. With the exception of hotels, however, vacancy rates were below those experienced during the real estate bust of the late 1980s and early 1990s.
- Torto Wheaton Research reports that the office space rental rate as of second quarter 2002 decreased by 8.7 percent from its peak in 2000. Tucson's office rental rate increased by 11% over the same time period.

Increased Phoenix and Tucson Office and Industrial Vacancies Resulted From the Slowing Arizona Economy



- Weakening CRE market conditions could adversely affect most of the 21 established community institutions¹ headquartered in Phoenix. As of mid-2002, the median CRE loan-to-Tier 1 capital ratio among these institutions was 386 percent, 2.7 times the level reported ten years earlier. The group's median construction and development (C&D) loan-to-Tier 1 capital ratio more than quadrupled over the past ten years to 84 percent.
- Despite the significant change in CRE vacancy rates over the past year, CRE loan delinquencies among Phoenix's institutions declined over the period. Past-due loan ratios were also well below levels reported in the early 1990s, when rapid declines in CRE market conditions battered insured institution asset quality and contributed to height-

Newer Institutions in Arizona Have Higher Exposures to Construction and Development Loans

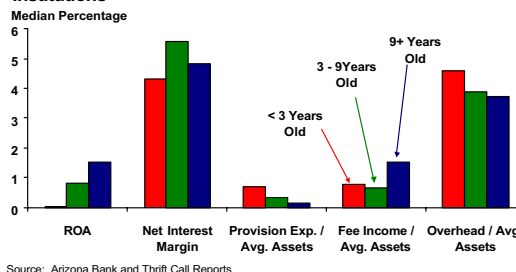


ened failure rates within the state. However, continued softness in the sector could translate into higher CRE loan defaults.

Earnings among Arizona's insured institutions were weak through mid-2002, primarily because of the state's high proportion of newly-chartered institutions (i.e., less than 9 years old).

- The state's median return on average assets (ROA) ratio declined year-over-year through mid-2002 from 1.13 to 0.79 percent, and compared unfavorably to a 1.08 percent median reported elsewhere in the nation.
- Earnings performance varied across institutions, depending upon age. ROA ratios were relatively weak among newly-chartered institutions, which accounted for 58 percent of the state's insured institutions (see **chart**).
- ROA ratios declined among the state's insured institutions primarily because of net interest margin contraction. NIMs narrowed because asset yields among the state's predominantly asset-sensitive

Low Provisions and Overhead, and Strong Fee Income Supported Earnings Among Arizona's Well-Established Institutions

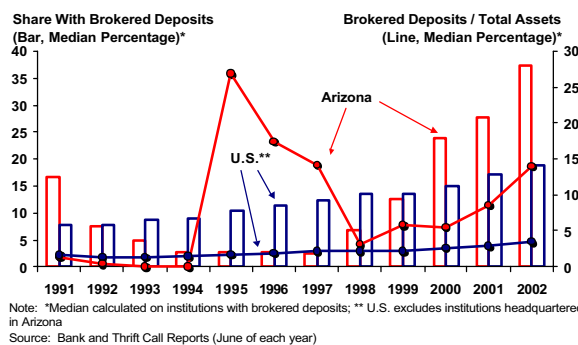


institutions reacted more quickly to interest rate declines than funding costs.

Arizona institutions relied increasingly on non-core funding sources², including brokered deposits.

- The median non-core funds-to-total asset ratio among Arizona's insured institutions increased from 8 to 18 percent between mid 1992 and mid-2002.
- Brokered deposits, often one of the least stable components of noncore funds, now represent an important source of funding for many institutions. The share of Arizona-based institutions using brokered funds increased to 37 percent by 2002 (see **chart**). Brokered deposits now fund 14 percent of these institutions' assets.

Brokered Deposits Are Used More Widely in Arizona Than Elsewhere



¹ Established community institutions are defined as insured institutions with less than \$1 billion in total assets, open for more than three years, with consumer loan-to-Tier 1 capital ratios below 200 percent.

² Noncore funds include brokered deposits, jumbo time deposits, foreign office deposits, and other borrowed funds such as Federal funds purchased and reverse repurchase agreements.

Arizona Insured Institutions At a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98	Jun-97
Institutions (#)	43	47	50	48	45	39
Total Assets (in thousands)	44,243,804	70,204,058	56,747,793	51,849,983	38,591,026	39,402,373
New Institutions (# <3 years)	10	14	14	15	13	9
Capital						
Tier 1 Leverage (median)	9.19%	10.13%	9.68%	9.62%	9.18%	8.21%
Asset Quality						
Past-Due and Nonaccrual (median)	0.78%	0.89%	0.86%	0.53%	0.79%	0.89%
Loan Loss Reserves/Total Loans (median)	1.30%	1.31%	1.22%	1.24%	1.39%	1.40%
Loan Loss Reserves/ Noncurrent Loans (median multiple)	2.80	1.97	2.97	4.29	3.81	4.95
Earnings						
Percent Unprofitable	13.95%	27.66%	22.00%	20.83%	11.11%	12.82%
Return on Assets (median)	0.79%	1.13%	1.04%	1.03%	1.19%	1.34%
Net Interest Margin (median)	4.83%	5.11%	5.55%	5.05%	5.44%	5.60%
Yield on Earning Assets (median)	6.94%	8.84%	8.96%	8.00%	8.65%	8.90%
Cost of Funding Earning Assets (median)	2.17%	3.78%	3.60%	2.99%	3.18%	3.08%
Provisions to Avg. Assets (median)	0.25%	0.26%	0.25%	0.19%	0.22%	0.19%
Noninterest Income to Avg. Assets (median)	0.87%	0.72%	0.68%	0.82%	0.77%	0.79%
Overhead to Avg. Assets (median)	4.12%	4.20%	4.38%	4.11%	4.14%	3.98%
Liquidity/Sensitivity						
Loans to Assets (median)	70.85%	69.31%	71.40%	62.61%	57.56%	63.94%
Brokered Deposits (# of Institutions)	16	13	12	6	3	1
Brokered Deps./ Assets (median for above inst.)	13.97%	8.61%	5.53%	5.82%	3.10%	14.16%
Noncore Funding to Assets (median)	18.18%	17.86%	15.94%	10.77%	10.36%	9.18%
Loan Concentrations						
Median Commercial RE to Tier 1	409.79%	274.37%	214.45%	185.91%	186.08%	184.97%
Commercial RE = Construction, Multifamily, and Nonres.						
Median Commercial & Industrial to Tier 1	118.64%	118.26%	134.99%	113.75%	122.85%	142.27%
Median Construction to Tier 1	99.22%	86.79%	78.19%	52.41%	39.30%	51.99%
Median Residential RE to Tier 1	54.13%	31.47%	48.91%	51.31%	43.89%	70.04%
Median Consumer to Tier 1	20.75%	20.96%	29.19%	27.12%	29.47%	44.87%
Consumer = Credit Card and other non-RE secured						
Median Agricultural to Tier 1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Primary Regulator						
FDIC	18	20	22	23	21	18
OCC	16	17	18	15	15	13
FRB	6	6	6	7	6	6
OTS	3	4	4	3	3	2
Asset Distribution						
\$0 to \$100 million	23	24	26	27	24	18
\$100 to \$250 million	10	10	11	7	8	10
\$250 to \$500 million	3	4	4	4	3	2
\$500 million to \$1 billion	2	4	4	4	5	3
\$1 to \$3 billion	3	2	2	2	1	2
\$3 to \$10 billion	0	0	1	2	3	3
Over \$10 billion	2	3	2	2	1	1
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets		
Phoenix-Mesa AZ	32	40,383,586	74.42%	91.28%		
Tucson AZ	4	2,883,246	9.30%	6.52%		
Yuma AZ	3	136,325	6.98%	0.31%		
Las Vegas NV-AZ	3	810,135	6.98%	1.83%		
Flagstaff AZ	1	30,512	2.33%	0.07%		